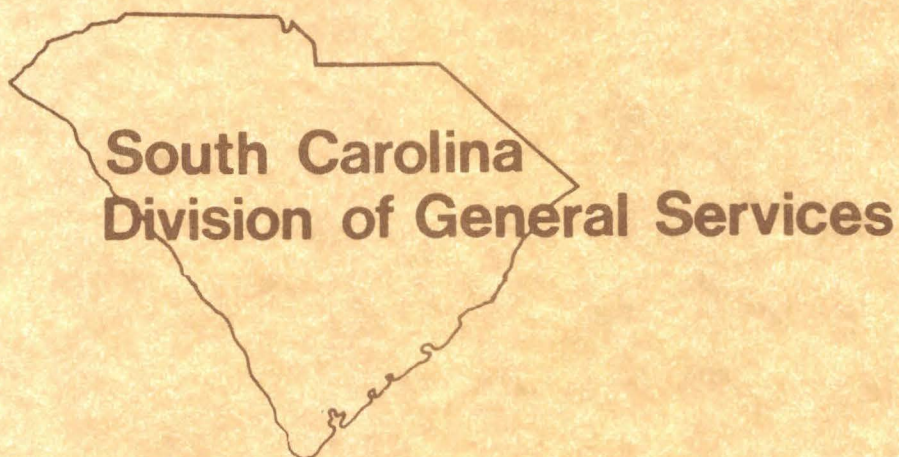


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AGENCY

JULY 1, 1985 - DECEMBER 31, 1987

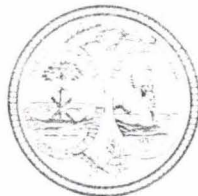
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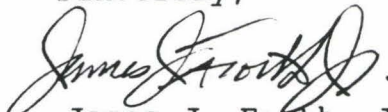
August 10, 1988

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Department of Consumer Affairs audit report and recommendations made by the Office of Audit and Certification. Since no certification above the \$2,500.00 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to them for information only.

Sincerely,


James J. Forth, Jr.

Attachment

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property
Boston Avenue
W. Cola., S.C. 29169
739-5490

Supply, Warehousing & IMS
1942 Laurel Street
Cola., S.C. 29201
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Training & Research
300 Gervais Street
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State Procurements &
Information Technology Management Office
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EXECUTIVE DIRECTOR

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the Department of Consumer Affairs for the period July 1, 1985 through December 31, 1987. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Department of Consumer Affairs is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by management are

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required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Department of Consumer Affairs in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Consumer Affairs and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We reviewed all procurement transactions for the period July 1, 1985 - December 31, 1987, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) adherence to applicable laws, regulations and internal policy;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) inventory and disposition of surplus property;
- (10) Minority Business Enterprise Utilization Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at the South Carolina Department of Consumer Affairs (the Department) produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Goods and Services, Consultant Services and Information Technology</u>	8

Our examination of goods and services, consultant services, and information technology procurements revealed that competition was not solicited in three cases.

Agency Response

In two cases, sole source statements were not completed although the Administrator had five verbal approvals. In one case, two quotes were not obtained on a travel ticket due to the Departments attempt to comply with its minority business program goals. The tickets were purchased from a qualified minority business.

II. <u>Compliance - Sole Source and Emergency Procurements and Trade-in Sales</u>	9
---	---

A. <u>Failure to Submit Quarterly Reports</u>	9
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The Department failed to submit quarterly reports of sole source and emergency procurements for six of the ten quarters of the audit period.

Agency Response

Quarterly reports have been submitted for missing quarters.

B. Failure to Report a Sole Source Procurement

9

One sole source procurement was not reported to the Division of General Services even though a quarterly report was filed for the period.

Additionally, as a part of this procurement, the Department made a trade-in sale totalling more than \$500.00 without the required approval of the Materials Management Office.

Agency Response

Amended reports have been submitted to correct this oversight.

III. Internal Control and Procedural Weaknesses

10

A. Receiving Reports

10

Four vouchers were processed without receiving reports to confirm receipt of goods or services.

This is a violation of Department policy.

Agency Response

No vouchers were or are paid without agency personnel confirming that goods have been received, but as indicated, written acknowledgements were omitted on some invoices... The Agency previously recognized the need for an internal procedures manual. At the time of the audit the internal procedures manual was in draft form and had not been approved as the official policy of the Agency. A copy was given to the audit team for their recommendations on the parts that concerned the procurement process.

B. Cancellation of Paid Invoices

11

Invoices are not marked paid or cancelled in any way when payment is made. This is poor internal control as well as a violation of Department policy.

Agency Response

Cancellation of invoices had been performed in the manner recommended by the State Auditor's Office in their annual audit for internal control. They recommended a verification stamp be placed on the Agency's voucher copy and initialed by an employee not cutting the voucher on the following items: Extensions and totals; verification of receipt; purchase orders or requisitions; account number; verifying sales tax; discounts as they may apply to each voucher. In addition, included on the voucher copy the check number and date when received back from the Treasurer's Office.

Refer to III. A. Agency reply that policy was only in draft form at time of this audit.

C. Missed Discounts

11

The Department missed two vendor discounts totalling \$21.89 even though the invoices were paid within the discount periods allowed by the vendors.

Agency Response

The agency has reviewed its procedures in order to insure that even minor discounts will not be missed in the future.

RESULTS OF EXAMINATION

I. Compliance - Goods and Services, Consultant Services, and Information Technology

Our examination of the Department's procurements consisted of a review of all expenditure transactions for the period July 1, 1985 - December 31, 1987 as indicated by the voucher registers. We noted that the following three transactions were not supported by evidence of competition or by sole source or emergency procurement determinations.

<u>Requisition</u>	<u>Amount</u>	<u>Voucher</u>	<u>Description</u>
	\$ 726.00	173	Travel agency services
28769	539.96	798	Computer equipment
	823.00	041	Maintenance contract

Regulation 19-445.2100, Subsection B, Item 2, requires that procurements of \$500.01 to \$1,499.99 be supported by solicitation of verbal or written quotes from a minimum of two qualified sources.

We recommend that this requirement be complied with on all future transactions.

Agency Response

Voucher 173 was not mentioned in the initial audit report but was paid to a minority travel agency to meet minority goals; voucher 798 the Agency failed to have a sole source statement signed although it had been approved by the Deputy Administrator in procuring a graphics package for the Agency's computer system; voucher 041 maintenance agreements on Agency's mailing system was renewed but failed to have a sole source statement signed.

II. Compliance - Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and trade-in sales for the period July 1, 1985 through December 31, 1987 and noted the following problems.

A. Failure to Submit Quarterly Reports

The Department failed to submit quarterly reports of sole source and emergency procurements for six of the ten quarters of the audit period. The Materials Management Office, under authority of Section 11-35-2440 of the Procurement Code, requires that these quarterly reports be submitted every quarter even if there has been no procurement activity. We recommend the Department submit its quarterly reports in a timely manner in the future as required by the Procurement Code, regardless of activity.

Agency Response

The agency has submitted quarterly reports for the quarters not reported.

B. Failure to Report a Sole Source Procurement

The Department prepared a written determination to support a sole source procurement of four typewriters on June 27, 1987. This transaction was not reported on the quarterly report of sole source activity for this period of April 1 through June 30, 1987.

<u>Requisition</u>	<u>Amount</u>	<u>Voucher</u>	<u>Description</u>
15004	\$ 5,622.75	647	Typewriters

An amended report should be filed to report this transaction.

Additionally, as part of this procurement, several old typewriters were traded in as a credit towards the purchase price of the new equipment. These typewriters had a trade-in value which exceeded \$500.00. Regulation 19-445.2150, Subsection E, states in part, "...when the trade-in value exceeds five hundred dollars (\$500.00), the governmental body should refer the matter to the Materials Management Officer for disposition." In the future, the agency must ensure that all trade-in's greater than \$500.00 have the appropriate approvals and are reported during the appropriate quarterly reporting period.

Agency Response

The agency has submitted an amended quarterly report to include this sole source procurement.

III. Internal Control and Procedural Weaknesses

We noted the following internal control and procedural weaknesses during our audit of the Department's voucher packages.

A. Receiving Reports

The following vouchers were processed without confirmation of receipt of goods.

<u>Requisition</u>	<u>Amount</u>	<u>Voucher</u>	<u>Description</u>
10487	\$ 746.90	723	Paper complaint forms
10549	999.08	607	Forms
10569	627.00	98	Computer equipment
15504	585.59	150	Copy paper

A receiving document is a required document for internal control to confirm receipt of goods or services thereby clearing a

commitment for payment. The Department's procurement and procedures manual indicates that the pink copy of the requisition/purchase order will be used as the receiving report. An invoice should not be processed for payment without this document in hand. We recommend the agency comply with its own internal procedures when processing invoices in the future.

Agency Response

The Agency's accounting section never pays for goods and services until it is certain that it has been received. The agency has written an internal procedures manual and was in draft form when this audit began. A copy was given to the audit team for their review and recommendations, for enhancement or corrections before it was put in final form and approved by the administrator as policy. The agency was in the process of establishing written internal procedures to correct these oversights.

B. Cancellation of Paid Invoices

The Department does not mark the vendor invoices paid, but stamps the voucher input sheet instead. These invoices are not being cancelled either by perforations or a stamp.

Section F, Finance Operating Procedures of the Department states:

The invoice that is being paid is attached to the voucher. This invoice (for emphasis) must be cancelled by marking "PAID" with check number and date of payment on the face of the invoice.

The Department should follow its own policies and procedures when processing invoices for payments.

Agency Response

The Agency's only audits in the past were by the State Auditors Office and we have adhered to all their requirements in satisfying payment of invoices. There could be improvements made to insure against double payments. We installed, effective July 1, 1986, the SAAS Accounting System written by U.S.C. for the IBM System 36 which requires a purchase order be entered before any invoice can be paid, (purchase orders are entered and funds encumbered on SAAS). To further restrict duplicate payments, should the SAAS fail, we have installed effective July 1, 1988, a requisition system, also written by U.S.C., that ties into the SAAS System. It will cut the purchase order and encumber funds at the same time. All invoices are now being marked paid as the vouchers had been marked in the past. The Agency's policy or procedures manual was in draft form and not yet approved as the official policy of the agency as mentioned above in III. A.

C. Missed Discounts

Our testing of sample transactions revealed that the accounts payable department failed to take the following cash discounts even though they were authorized by the invoice terms and processed in a timely manner.

<u>Voucher</u>	<u>Amount</u>	<u>Terms</u>	<u>Lost Discount</u>	<u>Item</u>
682	\$563.96	2% 30	\$10.74	Paper
150	585.59	1% 10 EOM	11.15	Paper

We recommend the invoice review process be reevaluated to ensure all discounts are taken.

Agency Response

Steps have been taken that will eliminate missed discounts in the future.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe, will in all material respects place the South Carolina Department of Consumer Affairs in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Department should take this corrective action prior to June 30, 1988. Prior to that date, we will perform a follow-up to determine progress in these areas. Subject to this corrective action and because additional certification was not requested, we recommend that the Consumer Affairs Office be allowed to continue procuring all goods and services, information technology and consulting services up to the basic level of \$2,500.00 as outlined in the Procurement Code.


Jeff Widdowson
Audit and Certification Analyst


R. Voight Shealy, Manager
Audit and Certification

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

August 10, 1988

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have returned to the Department of Consumer Affairs to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1985 - December 31, 1987. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Department has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested, therefore we recommend that the Department be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

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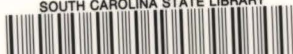
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